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SAFER MARKETS AND BETTER PRICES FOR MILK PRODUCERS

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ADMINISTRATION
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Federal milk licenses numbered 40 as of August 15, 1934.

They covered sales areas in 17 States with a total estimated consuming population of at least 18 million persons.

Only distributing agencies are licensed.

No fixed resale prices to consumers are used.

Prices of milk to distributors are determined according to the use made of the milk.

No licenses are completed without the request of and the approval of local associations of producers.

Highlights among the general advantages of the Federal milk licenses are:

1. To increase the income of the dairy farmers who supply each fluid milk market.
2. To increase the farmer's share in the management and control of his own market.
3. To maintain proper relations between producers on the same market and between groups of producers in different markets.
4. To provide reasonable protection to consumers.

An average increase amounting to 52 cents per 100 pounds on 24 licensed market areas of the country over the prevailing prices to producers in May 1933 was secured to farmers by Federal license schedules in effect as of June 1934. This increase is on the delivered basis, with the average deductions accounted for which farmers contributed to maintain the license supervision and the mutual market services.

SAFER MARKETS AND BETTER PRICES FOR MILK PRODUCERS

THE GOAL OF THE FEDERAL MILK LICENSES

More than 30 billion pounds of milk are sold annually by producers on the whole-milk consuming markets of the United States. A majority of this milk is produced by members of cooperative associations and a smaller proportion by nonmembers of associations and producers who distribute their own milk direct.

Fully 20 percent or more of the total consumption of milk by nonfarm populations of the country is represented by the volume of milk supplied to markets now under Federal licenses placed upon distributing agencies. Producers and individuals are not licensed. In certain special cases only, associations of producers are also distributing agencies and as such have obligations under the licenses similar to those governing commercial distributors.

The general objective of the present Federal licenses, which are completed after hearings and conferences with agencies on the several markets, and administered under the Agricultural Adjustment Act, are much the same as the historic objectives of the leading pioneer cooperative associations of producers.

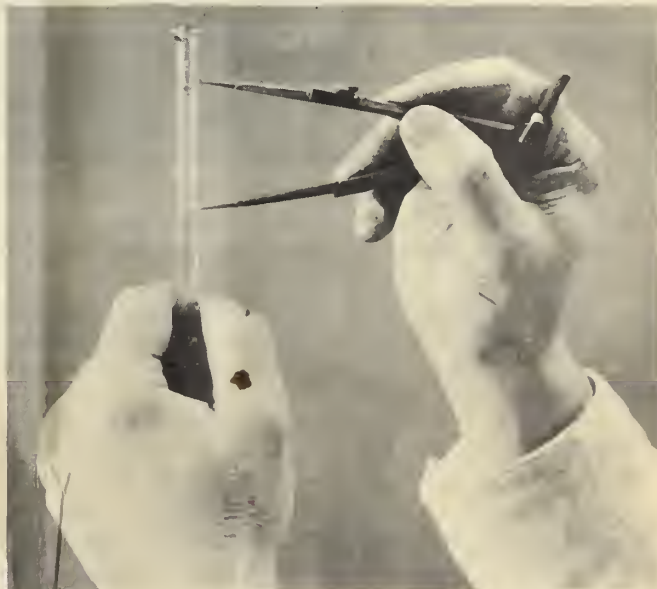
Insofar as it is within the restricted power of the Federal Government to fit the market requirements to the existing programs of the cooperatives, this is done in the licenses. It is necessary, however, for the Federal authorities to treat all dairymen alike, irrespective of whether they are members or nonmembers of cooperatives, when it comes to the economic provisions named in the licenses.

In brief review of the principal objectives sought in the present form of licenses for milk sales areas, the resemblance to the older platforms and policies long sought by cooperatives are striking.

The aims and objectives and the advantages to farmers which these Federal licenses are designed to bring about, with the aid of producers, are as follows:

1. To increase the income of the dairy farmer, regardless of whether he resides within a specified milk shed or otherwise, providing only that he delivers milk of such quality as permitted by the local boards of health.

This is designed to be secured not only by increasing the farmer's price for milk in the several classes in which it is sold, but by other supplementary means. These other additional ways found to increase farm income through the licenses are: Elimination of freight rate overcharges, or questionable country station and terminal charges, if they exist; protection of the producers against failure or neglect of distributors to pay them for milk; requiring dealers to pay for milk according to its actual use and sales value; elimination of unfair buying of milk on some markets without allowing for its actual butterfat test; and to make it impracticable for distributors to engage in price cutting warfare at the expense of the farmer.



2. To increase the farmer's share in the management and operation of his own market. This objective is secured by naming an approved and bonded impartial administrator, who will give his undivided attention to the terms of the license; by



the guaranteed right given to producers' agents to check the tests and weights to assure proper terms of payment to producers; by the right to check the books and records of distributors so that all their statements may be verified and all milk paid for according to its actual use; and to help establish a milk industry board representing all elements in the market area so as to set up an agency for local adjustment and control.

3. To maintain proper relationships between producers on the same market and between groups of producers in different markets.

This involves, among other things, the necessity for equalizing the entire burden of carrying surplus milk among all producers for a given market. The level of prices obtained must be just and equitable in relation to the amount of surplus on one hand and the amount of milk sold for higher prices on the other. A pooling system supervised by the market administrator accomplishes this objective. It may be with or without a base and surplus plan, depending on the nature and custom of the market

in question. Another advantage under this head is a clause which prevents any distributor on another market from dumping cream on the licensed market at cut rates. Where the base and surplus plan is requested, its object is to secure uniform production levels to reasonably reflect consumption trends. In the licenses the market administrator must allocate bases equitably among the several producers, using some established base period or periods to make the adjustment of base milk each farmer delivers on which is computed a blended price for class 1 and class 2 milk. New producers on most markets are not barred from entry, providing they come in under probation for a stated term under class 3 milk prices. Where emergency drought prices have been put into effect beyond the normal limits deemed advisable over long periods for any market, the clause restricting new producers is eliminated temporarily. Local health ordinances are then the only obligations which new producers must meet.

4. To provide reasonable protection for the consumer. This is sought under the Adjustment Act through the work of the Consumers' Counsel, who participate in hearings and decisions relative to proposed licenses. In the actual licenses themselves the object is to maintain normal competitive conditions among distributors. In some instances the licenses provide minimum resale prices on a few leading items sold by distributors, to discourage extreme price cutting and to keep up a safe and regular supply of milk for consumers without lowering the selling price to a point where it might impoverish the producers through unhealthy competition. Consumers may also take advantage of the milk industry board provisions in all licenses, which encourages a more intelligent comprehension of the milk problem. Funds from the milk administrator's budget may be used within stated limitations for bona fide work by the milk industry boards. In no case may this sum exceed one-fourth of 1 cent per 100 pounds of milk delivered to the market, as accounted for in the pool.

Expenses and Services

The producers provide the necessary funds for expenses of a market administrator and for services to them on the markets under Federal licenses. This proves a fair method because the licenses are fundamentally in their interests and are

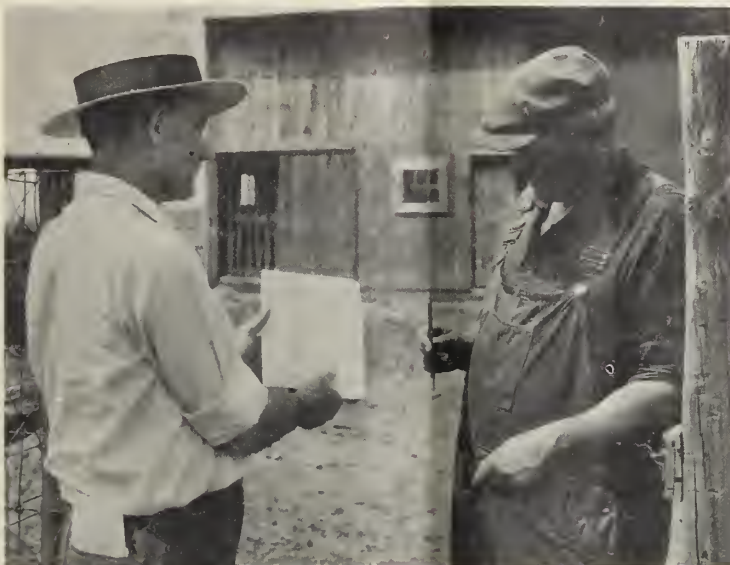
requested by the associations of producers. There are no marketing agreements with distributors and rules of fair-trade practice for them have been largely eliminated from licenses. Yet after all, distributors derive benefits from the existing licenses in several ways. They are treated equitably from the standpoint that all distributors must pay the same price for milk used for similar purposes. The item of stability which licenses are designed to provide is of value to all factors in any market area, and the better accounting systems in use give all agencies a better picture of the market supply and demand.

Deductions from producers' prices have long been familiar as a means whereby cooperators pooled their resources to accomplish advisable or protective market advantages. This idea is carried in the licenses with the further advantage that all producers, whether members or nonmembers of cooperative associations on the market, must pay their just share under a guaranteed service provision to the bonded market administrator, who serves the entire market area alike. This does away to a great extent with the "riders" who enjoyed all the advantages and bore none of the risks and responsibilities of the cooperative farmers.

The deductions are divided into two separate funds. One is used to pay the office expense and the salary of the administrator, whose duties are many and complex, and who is obliged to make regular reports and be open to examination by the Secretary of Agriculture. This deduction usually amounts to about 2 cents per 100 pounds of milk, uniformly deducted from the payments to all producers, including the ones who sell their own milk direct. The second fund is for market services, such as check testing and weighing, information, and guarantee against default by distributors in making milk payments. This fund varies on different markets, but it will average about 3 cents per 100 pounds of milk.

As a rule the rate thus given per 100 pounds of milk as a maximum payment for market services is based on the customary and prevailing rate which is similarly paid by members of cooperatives to their own association for similar purposes. In such cases the license specifies that nonmembers will pay 3 cents, or perhaps not to exceed the rate paid by members of the cooperative or cooperatives on the market. This makes a total average of about 5 cents per 100 pounds as the overhead cost to producers for the establishment and maintenance of a license, with its advantages above stated in price and protection.

Average Price Increases 57 Cents Per Hundred



Price increases alone are not regarded as the principal or sole advantages in the licenses. Stability of price and protective features written into the licenses are of equal value. Again, the price established by a Federal license and placed on an accurate accounting basis means real returns to producers instead of "paper" returns of questionable reality. Yet in the licensed areas to date sub-

stantially increased prices to farmers have come through the prevailing schedules.

On June 15, 1934, there were 24 markets licensed by the Agricultural Adjustment Administration. Comparing the f.o.b. farmers' milk price for class 1 milk only in June of this year with the prices reported on those markets for May 1933, prior to any Federal licenses, it is found that the average increase amounts to about 57 cents per 100 pounds. This is a weighted price increase according to the test of the milk on the various markets. The higher prices were the result of original or amended licenses granted by the Administration after hearings and conferences. Additional increases in price were often granted in other classes, but they are not included here. The extra drought price advances on a few markets are not included either.

Hence, with an average deduction of 5 cents per 100 pounds and an average increase of about 57 cents per 100 pounds secured through the Federal licenses, the net financial average increase amounts to fully 52 cents per 100 pounds on Class I milk delivered to distributors' plants. This is a trifle more than 1 cent per quart more to producers.



Whatever increases occurred in consumers' prices as a result of increased producer income was mainly of benefit to producers. In any event the licenses themselves usually played no direct part in the consumers' price because no established schedules of prices to consumers are contained in the licenses.

Licenses Flexible and Used Only on Request

Federal milk licenses are flexible enough to meet requirements of different markets. They are also amended to meet practical changes or emergencies in markets already licensed. They are thus more flexible than the old forms of marketing agreements, which required many signatures

and rehearings on amendments. As such, licenses are better suited to producers' needs than marketing agreements.

Federal milk licenses are instituted only upon request of agencies on the market. The usual request comes from recognized associations or groups of producers, preferably those representing a major volume of all the milk sold on each market.

Federal milk licenses are not designed to interfere with or replace or confuse orders and programs of State milk-control boards, but are where possible used to coordinate the activities of State authorities, particularly in reference to interstate relationships. Several State milk-control boards have cooperated with the Adjustment Administration in perfecting and maintaining present licenses. Federal milk licenses will usually not be instituted where State milk-control boards offer serious objections or request that none be issued.

Administration of Licenses

Market administrators on each market named by the Secretary of Agriculture, on local recommendation, supervise the pool, the adjustment fund, the records and reports, the bonds required of distributors, and the base allotments to producers. They are obliged to keep accurate records and make regular reports. Their books, as well as those of the distributors, are open to examination by the Secretary and are audited frequently. Enforcement of the terms of the licenses is jointly handled by the administrator, the General Counsel and the field investigation section of the Agricultural Adjustment Administration, and the Chief of the Dairy Section, at Washington, where the original licenses are drafted.

Extent of Federal Licenses

As of August 15, there were 40 Federal milk licenses in effect in 17 States, 5 of the licenses being in New England. There were nearly 6 billion pounds of milk consumed annually, in the sales areas defined in these licenses.

States within which milk licenses were effective as of August 15, 1934, include California, Colorado, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Oklahoma, Rhode Island, and Virginia. Applications for licenses were on file from a number of other States.

Other means than milk licenses are being used by the Agricultural Adjustment Administration to aid the dairy industry.

These include the buying of cattle in the drought areas to conserve feed for the better cows, the testing and payment of indemnity for cows reacting to the tuberculin test and the blood test for Bang's disease, together with the continued purchase of dairy products for unemployment relief purposes.

"The Administration believes that when it is given a chance to work out a fluid-milk agreement or license for an area which has a strong cooperative able to handle the major volume of the milk supply without rivalry or ruinous competition with other cooperatives, a number of essential steps to safeguard the producer and encourage consumption can be taken."

.....

"With a staff of men trained in their several States by actual farm experience and familiarity with cooperative organizations, the Adjustment Administration Dairy Section stands ready to assist and advise with cooperatives in all parts of the country. Our objectives are in the main similar to those of the cooperatives. If we can continue to work together on the basis of things we have mutually learned, we can be of great assistance to producers without injury to consumers. Not least important in the general recovery picture, is recovery of the dairy industry. And marching united, we should move steadily nearer that goal."

C. C. Davis

Administrator
Agricultural Adjustment Act.



"More clearly than anything else I can think of at the moment, a close study of the dairy problem discloses the interdependence of city people and country people. Here is one great farming industry which is almost entirely dependent upon the domestic market. The problem of dairying is different from that of the great export crops such as cotton or wheat. Exports of dairy products are so small as not to be a factor in the situation. Whatever returns the dairy farmer gets from his investment and his toil, he will get from the national income, from the domestic consumer."

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"The consumer can in fact be injured in several ways by an unduly sharp decline in the prices of dairy products. Under a collapse of his dairy income, the farmer may be driven out of business. . . . When the exchange value of dairy products is low, it means that the dairy farmer is able to trade his products for just so much less of the goods that are manufactured in mills and factories. That in turn means unemployment. So you can see how closely the interests of consumer and producer are interwoven."

H Wallace

Secretary of Agriculture.